Cravatex Limited

Instrument	Amount	Rating Action (March-16)
Term Loan	Rs. 8.74 crore	[ICRA]BB+ (Stable) /downgraded
Fund based (CC)	Rs. 50.00 crore	[ICRA]BB+ (Stable) / downgraded
Non Fund Based (SBLC)	Rs. 4.50 crore	[ICRA]BB+ (Stable) / downgraded
Non Fund Based (LC/LER/BC/Factoring)	Rs. 64.00 crore	[ICRA]A4+ / downgraded

ICRA has downgraded the long term rating outstanding on the Rs. 8.74 crore[1] Term loan, Rs. 50.00 crore fund based (Cash credit) and Rs. 4.50 crore Non fund based bank limits of Cravatex Limited to [ICRA]BB+ (pronounced ICRA double B plus)[2] from [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long-term rating continues to remain Stable. ICRA has also downgraded the short term rating outstanding on the Rs. 64.00 crore Non fund based bank facilities of Cravatex Limited to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A3 (pronounced ICRA A three).

The revision in ratings, factors in the deterioration of the financial profile of the company with decline in operating profit margins in the current fiscal (from 8.4% in 9MFY2015 to 5.4% in 9MFY2016) owing to increase in input cost as well as other overheads. The increasing share of e-commerce sales channel, where in the margins remain constrained, in the total revenues has resulted in a further impact on profitability levels.
The ratings also factors in the high working capital intensity of the company due to high debtors and inventory levels and the consequent weakening of debt coverage indicators. The ratings are further constrained by the company's limited revenue visibility owing to slowdown in demand mainly in fitness segment.

The ratings, however, favourably factors in the long established and proven experience of the promoter group in the distribution of sportswear and fitness equipment, exclusive long term sourcing arrangements with leading principals like FILA, Johnson Health Tech etc. The rating also takes into account the wide geographic spread facilitated by an array of channel partners and a diversified clientele in the institutional sales segment with top 10 clients accounting for ~45% of sales.

Going forward, the company's ability to turnaround its operations, achieve a healthy profitability level and manage its working capital indicators at a comfortable level remain important from a credit perspective.

Company Profile
Incorporated in 1951, Cravatex is a part of the Mumbai based Batra Group. The company was originally engaged operating one of the largest chain of dyers and dry cleaners in India (Band Box) and subsequently diversified into garment export, textile processing and printing. These business, however, were divested off subsequently. The company is now engaged in global retail, distribution and sourcing with a presence across the Indian Subcontinent, United Kingdom, Europe, North Africa and the Middle East. The company was listed on the Bombay Stock Exchange in 1979. The company operates in two segments, namely distribution of fitness equipment and distribution of sports shoes and apparel. Cravatex is the exclusive licensee for the distribution of the brand Fila for India, Pakistan, Sri Lanka, Bangladesh, Middle East and North Africa, while its subsidiary BB (UK) Ltd supplies to FILA license holders in UK and Ireland. Cravatex also holds the exclusive distribution rights for Taiwan base Johnson Health, which is a reputed vendor for fitness equipment

For the financial year ending March 31, 2015, the company reported an operating income of Rs. 232.56 crore (consolidated) and a net profit of Rs. 2.39 crore as compared to an operating income of Rs. 243.81 crore and a net profit of Rs 4.87 crore in the same period last year.

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[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Recent Results

In the nine month period ending December 31, 2015, the company reported an operating income of Rs. 131.11 crore and a net loss of Rs. 3.14 crore as compared to an operating income of Rs. 131.51 crore and a net profit of Rs. 1.10 crore in the same period previous year.

March 2016

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